

Message Text

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TAGS: EFIN, GR
SUBJECT: NEW ANTI-INFLATIONARY MEASURES SIGNAL REORDERING OF
GOG ECONOMIC PRIORITIES

REF: (A) PARIS 19031; (B) ATHENS 3908; (C) ATHENS 0135;
(D) ATHENS 4794

1. INTRODUCTION AND SUMMARY: ON SATURDAY, COORDINATION MINISTER
MITSOTAKIS ANNOUNCED A SERIES OF NEW FISCAL AND MONETARY MEASURES
DESIGNED TO COMBAT INFLATION AND STIMULATE PRODUCTIVE INVEST-
MENT. THIS STABILIZATION PLAN, WHICH WAS OUTLINED BY THE GREEK
DELEGATION AT THE JUNE 9 EDRC EXAMINATION (REF A), REPRESENTS A
SHIFT IN THE GOG'S ECONOMIC PRIORITIES. AT THE BEGINNING OF THE
YEAR, BECAUSE OF CONCERNS OVER A DECELERATING GROWTH RATE AND
POTENTIAL UNEMPLOYMENT, FISCAL, MONETARY AND INCOMES POLICIES
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WERE RELATIVELY EXPANSIONARY (SEE REF B). HOWEVER, BECAUSE IN-
FLATION ACCELERATED DURING THE FIRST HALF OF THE YEAR --
ACCORDING TO MITSOTAKIS IT IS NOW RUNNING AT AN ANNUAL RATE OF
15 PERCENT -- MODERATING PRICE INCREASES HAS BECOME THE NUMBER-
ONE PRIORITY. POLICY FLEXIBILITY IS OF COURSE LIMITED AT THIS
POINT, SINCE THE ANNUAL WAGE SETTLEMENT CYCLE IS FOR THE MOST
PART COMPLETED AND THE 1978 BUDGET CAN BE TRIMMED ONLY MARGIN-

ALLY. THEREFORE, THE GOVERNMENT ESTIMATES THAT THE NEW MEASURES CAN AT BEST HOLD INFLATION TO LAST YEAR'S LEVEL OF AROUND 12 PERCENT, AND ONLY IN 1979 CAN A MORE STRINGENT WAGE/PRICE PROGRAM BE IMPLEMENTED. END INTRODUCTION AND SUMMARY.

2. THE NEWLY ANNOUNCED MEASURES FALL INTO FIVE CATEGORIES:

A) FISCAL; B) MONETARY; C) PRICE CONTROLS; D) INVESTMENT INCENTIVES; AND E) CAPITAL MARKET INCENTIVES. IN BRIEF, THE FOLLOWING SUMMARIZES THE PACKAGE'S MAIN ELEMENTS.

3. FISCAL MEASURES: THE INVESTMENT BUDGET WILL BE CUT BY 5.5 BILLION DRACHMAS (AROUND \$150 MILLION AND 7 PERCENT OF THE TOTAL DEFICIT) BY NOT SPENDING THE UNALLOCATED RESERVE FUND. THE REGULAR BUDGET'S "FLEXIBLE EXPENDITURES" (APPARENTLY THIS MEANS EVERYTHING EXCEPT THE DEFENSE BUDGET AND WAGES AND SALARIES) ARE TO BE REDUCED BY 10-15 PERCENT, BUT NO DETAILS WERE GIVEN ON THE EXPECTED MAGNITUDE OF THE REDUCTIONS OR ON THE PROGRAMS WHICH WILL BE AFFECTED. PUBLIC-SECTOR HIRING (GOVERNMENT, PUBLIC UTILITIES, AND BANKS) IS TO BE FROZEN FOR SIX MONTHS. THE ACCUMULATED UNCOVERED CONSUMER GOODS ACCOUNT DEFICIT, WHICH SHOULD TOTAL AROUND \$1.3 BILLION BY THE END OF 1978, WILL HENCEFORTH BE INCLUDED IN THE PUBLIC DEBT AS A BANK OF GREECE LOAN, AND AS SUCH WILL HAVE TO BE FINANCED THROUGH BUDGETARY ALLOCATIONS. IT HAS UNTIL NOW BEEN AN EXTRA-BUDGETARY EXPENSE FINANCED BY THE CENTRAL BANK. ON THE REVENUE SIDE, A CONCERTED EFFORT WILL BE MADE TO CLAMP DOWN ON TAX EVASION, IN PART BY ESTIMATING INCOME LIMITED OFFICIAL USE

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THROUGH EXPENDITURES ON LUXURY ITEMS (HOUSES, CARS, SERVANTS, YACHTS ETC.). NO MENTION WAS MADE OF A CAPITAL GAINS TAX, WHICH WAS DISCUSSED AT THE EDRC, BUT THIS MAY STILL BE IN THE CARDS FOR NEXT YEAR'S BUDGET.

4. MONETARY MEASURES: THE BANK OF GREECE HAS ALREADY MADE EFFORTS THIS YEAR TO SLOW THE EXPANSION OF THE MONEY SUPPLY BY PUTTING A 20 PERCENT CEILING ON THE INCREASE OF COMMERCIAL BANK CREDIT TO THE PRIVATE SECTOR AND 16 PERCENT ON THE GROWTH OF CURRENCY CIRCULATION. HOWEVER, THESE CEILINGS ARE MORE OFTEN THAN NOT EXCEEDED. THE NEW MEASURES INCLUDE AN INCREASE IN INTEREST RATES ON BONDS AND DEPOSITS, TO REDUCE SOME OF THE LIQUIDITY IN THE HANDS OF CONSUMERS AND TO MAKE SAVINGS DEPOSITS MORE COMPETITIVE WITH CONSUMER DURABLES. SAVINGS ACCOUNTS WILL NOW EARN 10 PERCENT, UP FROM 7; TIME DEPOSITS 11-12.5 PERCENT, UP FROM 8.5 PERCENT; AND BONDS 13 PERCENT, UP FROM 10.5 PERCENT. TO REDUCE THE DEMAND FOR CREDIT, INTEREST RATES ON LOANS WILL BE INCREASED FROM 1 TO 3 PERCENT, WITH THE EXCEPTION OF EXPORT LOANS WHICH ARE FIXED AT 9.5 PERCENT. AND TO IMPROVE THE FUNCTIONING OF THE FINANCIAL SECTOR IN ANTICIPATION OF GREECE'S ENTRY INTO THE EC, UNSPECIFIED MEASURES WILL BE TAKEN TO CREATE AN INTER-BANK MONEY MARKET AND TO ENCOURAGE THE USE OF CHECKS (CASH IS NOW OVER-

WHELMINGLY THE PREFERRED INSTRUMENT FOR SETTLING TRANSACTIONS). SIGNIFICANTLY, MITSOTAKIS' ANNOUNCEMENT DID NOT MENTION ANY CHANGE IN POLICY TOWARDS MORTGAGE LOANS, ALTHOUGH THE GREEK DELEGATE TO THE EDRC REVIEW ASSERTED THAT HOUSING CREDITS HAD ALREADY BEEN REDUCED (SEE REF A). WE HAVE ALSO HEARD THAT IT IS NOW MORE DIFFICULT TO GET A HOUSING LOAN FROM THE MORTGAGE BANK, AND THEREFORE SUSPECT THAT THIS SENSITIVE SOCIAL ISSUE IS BEING DELIBERATELY DOWNPLAYED.

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5. PRICE CONTROLS: DIRECT PRICE CONTROLS WILL BE APPLIED TO RATES OF PUBLIC UTILITIES AND PUBLIC TRANSPORT. OTHERWISE, PRICE-CONTROL MEASURES ARE AIMED PRIMARILY AT LIMITING THE UNCONTROLLED PROFITS OF THE RETAIL SECTOR, PARTICULARLY MIDDLEMEN IN THE AGRICULTURAL SECTOR. THE GOVERNMENT HOPES TO ENCOURAGE CO-OPERATIVES AND TO IMPROVE THE DISTRIBUTION SYSTEM FOR AGRICULTURAL PRODUCTS. WE NOTE, HOWEVER, THAT THIS HAS LONG BEEN AN UNREALIZED GOG GOAL AND IS NOT A NEW MEASURE.

6. INVESTMENT INCENTIVES: MITSOTAKIS MAINTAINED THAT INDUSTRIAL OUTPUT AND INVESTMENT ARE SHOWING SIGNS OF IMPROVEMENT. TO ENCOURAGE EXISTING INDUSTRIES TO MODERNIZE AND EXPAND, HE SAID THAT A NEW DRAFT LAW WITH TAX AND FINANCIAL INCENTIVES FOR INDUSTRY

IN MORE DEVELOPED REGIONS (MAINLY AROUND ATHENS AND THESSALONIKI WHERE THE BULK OF GREECE'S INDUSTRY IS LOCATED) WILL SOON BE SUBMITTED TO PARLIAMENT. THESE AREAS WERE PREVIOUSLY EXCLUDED LIMITED OFFICIAL USE

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FROM MOST OF THE INCENTIVES ANNOUNCED LAST FEBRUARY (SEE ATHENS A-21).

7. CAPITAL MARKET: TO DEVELOP THE CAPITAL MARKET AND THUS CHANNEL CONSUMER SAVINGS AWAY FROM DURABLE GOODS INTO MORE PRODUCTIVE INVESTMENT, THE GOG ANNOUNCED IT WOULD ALLOW INSURANCE COMPANIES TO INVEST IN BONDS TRADED ON THE STOCK EXCHANGE, INCREASE TAX EXEMPTIONS FOR DIVIDENDS, AND REDUCE THE RATE OF TAXATION ON COMPANIES WHICH RAISE NEW EQUITY CAPITAL THROUGH THE EXCHANGE.

8. COMMENT: THE NEWLY ANNOUNCED PACKAGE CLEARLY CONTAINS NO RADICAL BELT-TIGHTENING MEASURES. PERHAPS THE MOST SIGNIFICANT STEP IS THE INCLUSION OF THE VERY INFLATIONARY UNCOVERED DEFICIT OF THE CONSUMER GOODS ACCOUNT IN THE REGULAR BUDGET AND PUBLIC DEBT, BUT THE REAL IMPACT OF THIS WILL NOT BE FELT UNTIL NEXT YEAR. THE GOVERNMENT'S MANEUVERABILITY AT THIS TIME, HOWEVER, IS HAMPERED BOTH INSTITUTIONALLY--THE WAGE CONTRACT CYCLE AND THE STATE BUDGET HAVE LITTLE FLEXIBILITY IN 1978--AND POLITICALLY. LOWER-INCOME GROUPS, WHO ONLY RECENTLY EXPERIENCED A RISE IN REAL WAGES, ARE RESPONSIBLE FOR MUCH OF THE INCREASED DEMAND FOR CONSUMER GOODS. THEIR WILLINGNESS TO ACCEPT EROSION OF NEWLY ACQUIRED LIVING STANDARDS IS LIMITED, AND PASOK WILL BE QUICK TO EXPLOIT ANY EVIDENCE OF DISSATISFACTION. NOT UNEXPECTEDLY, THE OPPOSITION PRESS HAS ALREADY CRITICIZED THE NEW MEASURES FOR PLACING ADDITIONAL BUDENS ON THE WORKING CLASSES.

9. MITSOTAKIS' STRATEGY APPEARS TO BE TO MOVE SLOWLY AND CAREFULLY, TO AVOID PROVOKING A CONSUMER REVOLT AT THIS TIME, BUT TO PREPARE THE POPULATION PSYCHOLOGICALLY FOR MORE STRINGENT WAGE/PRICE MEASURES NEXT YEAR. IF HE CAN SHOW SOME REAL DECELERATION IN THE INFLATION RATE DURING THE NEXT SIX MONTHS--EVEN IF IT IS ONLY FROM AN ANNUAL RATE OF 15 PERCENT TO 12 PERCENT--HE WILL BE IN A BETTER STRATEGIC POSITION TO HOLD DOWN WAGE INCREASES NEXT LIMITED OFFICIAL USE

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YEAR. THE LEAK OF THE OECD SECRETARIAT'S DRAFT REVIEW OF THE GREEK ECONOMY (SEE REF D) ALMOST CERTAINLY CAME FROM THE MINISTER HIMSELF, AND WAS PROBABLY INTENDED TO GENERATE SUPPORT FOR HIS PROGRAMS. THE REPORT WAS QUITE CRITICAL OF GREECE'S CONTINUING DOUBLE-DIGIT INFLATION AND HIGH WAGE INCREASES, AND THE PURPOSE OF THE LEAK WAS TO CONVEY INDIRECTLY THE MESSAGE THAT,

IF GREECE IS NOT SUCCESSFUL IN RESTRAINING ITS OWN INFLATION,
IT MAY FIND ITSELF IN THE POSITION OF HAVING RESTRAINTS IMPOSED
BY OTHERS.
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